

## PRIMARY SECURITIES MARKET

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### Abstract:

The primary securities market is the relationship between its participants, as a result of which securities are released into circulation (appear on the market). The basis of the primary market is the relationship between the person issuing the security and obligated under it - the issuer, and the person receiving the security - the owner of the security, the investor.

**Keywords:** *primary securities market, issue-grade security, conversion.*

**Relevance of the topic:** The securities market allows governments and businesses to expand their range of financing sources beyond self-financing and bank loans. Potential investors, in turn, with the help of the securities market, have the opportunity to invest their savings in a wider range of financial instruments, thereby gaining greater choice.

Unlike other financial and commodity markets, the securities market to the greatest extent requires participants to have a scientific approach to analyzing situations, understanding the essence of securities and the peculiarities of its manifestation in the market.

In the Law “On the Securities Market”, an issue of equity securities is a set of securities of one issuer that provide their owners with the same amount of rights and have the same nominal value. Here the concept of “release” has the meaning of only an object.

When they talk, for example, about putting a security into circulation, they mean the process of its appearance on the market. This is the inconvenience of the usual use of this concept.

The placement of issue-grade securities is the alienation of issue-grade securities by the issuer to the first owners through the conclusion of civil transactions. As a result, in the Law the term “issue” has the meaning only of an object, and the term “placement” only means a process performed with a security.

The Law also establishes the following key concept - “emission”. An issue is a sequence of actions by the issuer to place issue-grade securities. The placement represents one of the stages of the emission procedure; it is only part of a more general concept - “emission”.

The logical connection of the concepts given in the Law is as follows. The issuer brings to the market a certain amount of its securities, called an issue, strictly observing the sequence of actions - issue, one of the equivalent stages of which is the alienation process itself, that is, placement.

The issue must also be distinguished from the issuance or distribution of securities.

- If a security is issued in single or small quantities and has only one or a few owners, then in such cases it is said to be issued or issued (for example, a bill).
- If a security is issued in large enough quantities, and therefore the number of its owners is large enough, then it is said to be distributed among market participants (for example, shares).

The main difference is that the issue of securities is based on state registration of the issue of the securities themselves, and the issuance or distribution of securities is based on state registration of the relevant rules.

### **Main part.**

The primary market is a broader concept than issue. The main differences between them are as follows:

- ✓ issue is the procedure for entering the market of only issue-grade securities;
- ✓ the primary market covers any securities, including those for which there is no issuance procedure;
- ✓ issue is a state-prescribed sequence of stages in bringing an issue-grade security to the market;
- ✓ in the primary market, the issuer can use (within the limits of the laws) a wide variety of ways and means of introducing a security to the market;
- ✓ the primary market is the totality of all relations of all market participants regarding the alienation of a security, primarily the relations between the issuer and the investor;
- ✓ issue is a procedure prescribed only to the issuer; the actions of the investor are not directly regulated in it.

Securities placed by issue receive the legal status of “issue” securities. According to Russian legislation, only three types of securities are classified as equity securities: shares, issuer options (on shares) and bonds. All other Russian securities are, from a legal point of view, non-equity.

The main reasons for classifying certain securities as issue-grade securities are as follows:

- capital nature of the security. An issue-grade security always represents capital. It is an object for investment, as it brings net income to its owner in one form or another;
- the significance of the capital represented by the security. A share is share capital; joint-stock companies are the basis of the entire modern market economy. Bonds are issued by the state and, for the most part, by the same joint stock companies;
- affecting the interests of broad sections of society, the interests of the country's civilian population. Regulation of emissions is one of the important forms of state protection of the interests of private individuals;
- technical feasibility of regulating the process of placing securities. The placement of a security, even if it is placed in fairly large quantities, may not always take the form of an issue.

The issue of securities is the sequence of actions of the issuer established by law for the placement of issue-grade securities.

The law establishes both the issuance procedure and the securities classified as emission securities, that is, placed in accordance with this procedure. However, the law may prescribe a procedure similar in content for non-issued securities. For example, the issuance of investment shares or mortgage participation certificates is carried out under state regulation conditions very similar to the placement of issue-grade securities.

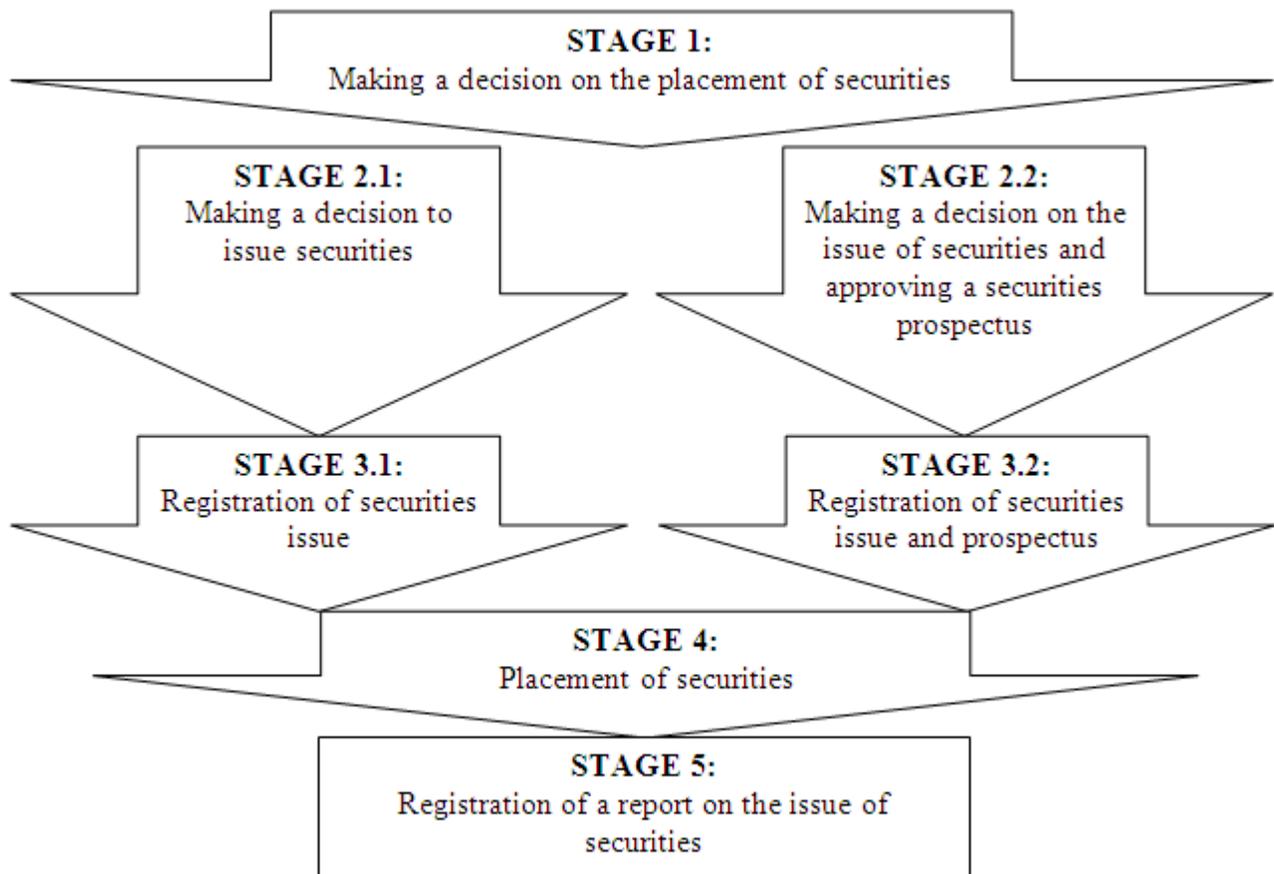
The issuance procedure includes the following mandatory steps (Figure 1):

- ✓ making a decision on placement by the issuer;
- ✓ approval of the decision on release;
- ✓ state registration of the issue;
- ✓ accommodation;
- ✓ state registration of the report on the results of the issue.

If the placement of an issue-grade security is carried out by open subscription or closed subscription among more than 500 persons (investors), then the issue procedure additionally includes:

- ✓ registration of a security prospectus;
- ✓ disclosure of information about each stage of the issue procedure.

The procedure for issuing the Bank's bonds and state and municipal securities is regulated by other regulations.



**Figure 1. Procedure for issuing securities.** *Option A reflects the procedure in which a prospectus is not required, and option B reflects the procedure in which a prospectus is mandatory.*

The issuer has the right to begin placement of securities only after state registration of their issue. The process of placing equity securities can be characterized from different sides. In terms of priority, placement is usually divided into primary and secondary.

Primary placement is the first placement of a security of a given issuer on the market. It occurs when:

- ✓ the joint stock company is just being established;
- ✓ the company issues its securities to the market for the first time.

For example, a company that is not a joint stock company decided to issue bonds on the securities market for the first time:

- the company places some new type of security that it has not previously issued. For example, when a company that previously issued only common stock or bonds decides to issue its convertible bonds or preferred stock for the first time.

Secondary placement (secondary issue) is a repeated and all subsequent issues of certain securities of a given company.

According to the placement method, the issue can be carried out by:

- ✓ distribution;
- ✓ subscriptions;
- ✓ conversion;
- ✓ exchange;
- ✓ acquisitions.

The placement of shares can be carried out in all of the above ways. Bonds are placed only by subscribing to them or converting other securities into them.

Distribution of securities is their placement among a previously known circle of persons without concluding a purchase and sale agreement. Issue by distribution is possible only for shares in two cases:

- 1) when establishing a joint stock company; in this case, the founders make contributions to the authorized capital in the form of money or property, but there is no legal purchase of shares;
- 2) when the source of increasing the authorized capital of a joint-stock company is its own capital (additional capital, retained earnings, etc.). In this case, shareholders receive shares without any payment.

Subscription is the placement of securities by concluding a purchase and sale agreement. In the case of shares, subscription represents their placement when increasing the authorized capital by placing additional shares. Subscription can be carried out in two forms:

- closed - this is the placement of a security among a previously known, limited circle of investors, determined by the terms of placement;
- open - this is the placement of a security among a potentially unlimited number of investors on the basis of wide publicity without any advantage of some acquirers over others.

Restrictions can only occur if the preemptive right to purchase new issues of shares is exercised by shareholders, there are restrictions in the company's Charter on the ownership of the maximum number of shares by one shareholder, and in the case of the acquisition of securities by non-residents.

Conversion is the placement of one type of security by exchanging it for another type under predetermined conditions. Conversion allowed:

- ✓ bonds into bonds, preferred shares and ordinary shares;
- ✓ preferred shares into preferred shares and ordinary shares;
- ✓ ordinary shares into ordinary shares during the reorganization of a joint stock company.

Conversion of common shares into bonds or preferred shares is not permitted.

### **Conclusion:**

The placement of securities in the form of conversion is usually carried out as a result of a previous placement of convertible securities or during the reorganization of a joint stock company in any of its forms (merger, accession, division, spin-off, transformation).

An exchange (as a legal method of placement) is the placement of shares of a joint-stock company created as a result of the transformation into a limited liability company or cooperative. In this case, there is an exchange of shares or shares of these organizations for shares of the joint-stock company that has arisen on their basis.

Acquisition (as a legal method of placement) is the placement of shares of a newly emerged joint-stock company as a result of its separation from another joint-stock company or transformation into a joint-stock company of a state-owned enterprise or non-profit partnership.

The placement is aimed at attracting financial resources by the issuer on borrowed terms (in the case of issuing bonds) or by increasing the authorized (equity) capital (in the case of issuing shares), but this is only done according to the rules and under the control of the state represented by its regulatory bodies stocks and bonds market.

The placement may have as its immediate goals an increase in the issuer's capital; establishment of a joint stock company; change in the par value of previously issued securities; placement of securities with new properties (rights); exchange of one security for another and the like.

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